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경영학 석사 학위논문

Partner Favorability and Acquisition Premia in Cross-Border M&A's

국경 간 인수합병에서 상대기업 호감도가
인수 프리미엄에 미치는 영향

2016 년 8 월

서울대학교 대학원

경영학과 경영학 전공

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Abstract

In this paper, we examined the linkage between a firm's sentiment toward the national identity of its acquisition partner and the acquisition premium paid. Using a sample of 435 cross-border M&A's in 38 countries, we found that the acquisition premium is negatively associated with: 1) the degree of favorability the acquiring firm holds toward its target firm's national identity; and 2) the degree of favorability the target firm holds toward its acquiring firm's national identity. In addition, information asymmetry was shown to moderate the relationship between the acquirer's favorability of the target firm and the acquisition premium. Specifically, the acquiring firms tend to rely more on their subjective favorability in unrelated acquisitions in which they lack information on the target firm. In sum, our results shed new insight on the effects of subjective favorability of national identities on acquisition premia in the context of cross-border M&A's.

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Keywords: Partner Favorability, National Identity, Acquisition Premium, Cross-Border M&A's

Student Number: 2014-20403

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1. Introduction

A cross-border acquisition is an efficacious strategy that serves multiple functions at the strategic level, including providing an entry to a foreign market and procuring critical assets (Björkman, Stahl & Vaara, 2007; Shimizu, Hitt, Vaidyanath & Pisano, 2004). Among all facets of cross-border acquisitions, many researchers have been interested in the topic of acquisition premium in particular. After all, it is a critically important element in cross-border acquisition, which can also substantially affect post-acquisition performances (Krishnan, Hitt & Park, 2007; Laamanen, 2007; Sirower, 1997). For instance, excessive acquisition premium leads to negative returns to shareholders, poor post-acquisition performance, and even bankruptcy (Hayward & Hambrick, 1997; Lubatkin, 1983; Trachtenberg, Meinbardi & Hiller, 1990; Varaiya & Ferris, 1987; Walking & Edmister, 1985).

In the extant literature, there are two streams of research that can explicate the nature of cross-border acquisition premia. The first stream focuses on the deal-specific factors that influence acquisition premium. For example, Nielsen and Melicher (1973) found that acquisition premium is positively associated with the magnitude of potential synergy between the acquirers and target firms. Slusky and Caves (1991) also found that acquisition premia increase with financial synergy, as well as existence of rival bidders. Furthermore, based on stock market misvaluations of the combining firms, Shleifer and Vishny (2003) found that relative valuation of

target firms and the market's perception of the synergies also determine acquisition premia. In a recent study, Alexandridis, Fuller, Terhaar and Travlos (2013) also discovered a positive relationship between the size of the target firms and the excessive premia paid for the acquisitions.

The second branch of research focuses on the cognitive factors that give rise to acquisition premia. For instance, Hayward and Hambrick (1997) examined the top managers' cognitive process of determining acquisition premia by focusing on the role of CEO hubris. In addition, Haunschild (1994) showed the influences of inter-organizational ties on the acquirers' bidding price when the value of acquisition target is uncertain. Furthermore, drawing from the theories in behavioral learning and risk taking, Kim, Halebian, and Finkelstein (2011) demonstrated that when managers are desperate for growth, they tend to pay higher acquisition premia to acquire the target firms.

Despite the plethora of studies on this topic, researchers have yet to examine acquisition premia in the context of cross-border acquisitions. Given that the fastest segment in recent M&A market is in cross-border transactions (Armstrong, 2015; Hammond, Baigorri & Browning, 2015), this is a glaring gap in the literature. Since a cross-border M&A involves consolidation of two distant organizations with distinct national identities, examining the linkage between the dynamics of the interplay by the two partners would offer a greater insight on acquisition premium in global M&A's. In particular, the role of favorability toward national identities in

cross-border acquisitions has never been studied. In this paper, we attempt to fill this gap by examining whether and how the perception of foreign countries affects an M&A transaction based on a sample of 435 cross-border acquisitions from 38 countries. The following are our main research questions:

- 1) How does an acquirer's attitude toward the national identity of the target firm affect the acquisition premium paid?
- 2) How does a target firm's attitude toward the national identity of the acquirer affect the acquisition premium paid?
- 3) How does the interaction of the mutual attitudes toward the national identity between the acquisition partners affect the acquisition premium paid?
- 4) How does information symmetricity moderate the relationship between acquisition parties' attitude toward the national identity of their partners in the context of the acquisition premium?

Our results show that the acquisition parties' sentiments in the context of national identities do affect cross-border acquisitions. We found that the acquisition premium is significantly associated with perceived favorability of the partner firm's national identity, from perspectives of both the acquirer and the target. Specifically, a favorable sentiment of an acquirer toward its target firm's national identity is negatively associated with acquisition premium. Furthermore, we also found equally compelling set of results from the target firm's perspective: A target's favorable attitude

toward the national identity of its acquirer firm is negatively related with acquisition premium. In addition, the results showed that the relationship between the acquirer's favorability of its target and acquisition premium is amplified by information asymmetry. In other words, the acquiring firms tended to rely more on their subjective favorability in unrelated acquisitions in which they lack information on the target firm.

To date, researchers have not yet considered the impact of subjective favorability between acquisition partners on the acquisition premium. In our study, we attempt to fill this gap by examining the dynamics between an acquirer and its target firm in terms of their mutual favorability (or lack thereof) and show that it can serve as a potential asset (or a liability) in cross-border interfirm transactions. In addition, our study is the first to empirically focus on the role of information asymmetry on such dynamics.

In the following sections, we develop several hypotheses based on the existing literature; we then test them empirically and report the results. In the final section, we discuss our findings and offer suggestions for the future studies.

2. Theory and Hypothesis

In the extant literature on within-border M&A's, scholars have paid much attention to analyzing the organizational distance between the partners as both antecedents and outcomes of a merger (Bauer & Matzler,

2014; Datta, 1991). Similarly, researchers of cross-border M&A's have also considered the role of cultural, administrative & political, geographic, and economic distances on firm-level behaviors and performances (Björkman et al., 2007; Ghemawat, 2001; Lee, 2008; Reus & Lamont, 2009; Shenkar, 2001;). Although researchers are cognizant of the differences between the two parties engaged in an acquisition, however, the variances in mutual perception or attitude toward their respective partner firms have been less examined. What happens if one of the two parties about to undergo an acquisition harbor a particular sentiment/stereotype toward the other firm? How does a strong (dis)favorability of an acquirer toward the target influence the reservation price it is willing to pay for the acquisition? Relatedly, how does a strong (dis)favorability of a target toward the acquirer influence its reservation price for the acquisition? In this study, we explore how varying degrees of favorability or perception based on national identities influence an M&A between two firms. Specifically, we examine the firms' attitude toward their partners and their national identities in the context of the acquisition premium paid. Acquisition premium is determined at the very initial stage of an M&A and holds a significant impact on the combined firm's post-M&A performances (Haunschild 1994; Laamanen, 2007).

In recent years, a few researchers of M&A's have suggested that national-level characteristics can be projected to firms' organizational level and affect the acquisition premia. For example, Weitzel and Berns (2006)

found that the level of corruption in the host countries was positively associated with acquisition premia. Hope, Thomas and Vyas (2011) showed how the dominance of national pride in developing countries affect their bids in cross-border acquisitions. In addition, Kiyamaz (2004) found a strong relationship between acquisition premia and the national geolocations of the acquisition partners. In sum, previous researchers have demonstrated that national-level characteristics do influence firms undergoing an acquisition.

However, those national-level characteristics were limited to one-sided sentiment or firm specific sentiment. They have merely focused on either acquirer or target's sentiment without looking into both sides. Also, they haven't discussed general sentiment of the firm such as favorability of national identities. Instead, they have only dealt with firm-specific sentiment such as corruption, national pride, and geolocation. Favorability of a national identity is a holistic attitude that encompasses all sentiments toward every aspect of the nation's influence including the country's culture, military power, politics, and economy (Nye, 2004; Nye, 2011). Thus, we can argue that favorability of a national identity can be an appropriate concept to investigate a comprehensive effect of being a member of a specific nation on acquisition premia in the context of cross-border M&As. Acquisitions are inherently influenced by cognitive processes (Haunschild, 1994; Hayward & Hambrick, 1997). Therefore, we expect that perception of different national

identities and attraction toward acquisition parties would also impact cross-border acquisitions.

2.1 Favorability of National Identity: The Acquirer's Perspective

In undertaking a cross-border acquisition, a firm signals its willingness to work closely with substantial number of managers and workers from the target firm (Chakrabarti, Gupta-Mukherjee & Jayaraman 2009; Morosini, Shane & Singh, 1998). Employees of the acquiring firm would need to accommodate the distinct cultural characteristics of the target firm and vice-versa (Larsson & Finkelstein, 1999). Therefore, it is reasonable to assume that an acquirer would be more willing to purchase a target firm associated with more favorable national identity. If the national identity of the target firm is perceived as favorable, it would increase the reservation price the acquirer is willing to pay for the target; in turn, the acquisition premium paid in the transaction would increase accordingly. Moreover, the extant literature has shown that acquisition markets are also driven by supply-demand relationships; a greater number of bidders interested in the target firm tend to lead to higher acquisition premia (Shelton, 2000; Varaiya, 1987; Walking & Edmister, 1985). In other words, as the general favorability of the target firm increases, the price---and the premium---of an acquisition deal would tend to increase as well. In fact, the extant literature on the behaviors of the 'white knight' acquirers have

shown that favorability of the target firms leads to over-bidding and higher acquisition premia. Specifically, 'white knight' acquirers, relatively friendlier than the other counterparts, tend to over-bid during the process of acquisition price offering to outbid their competitors (Carroll & Griffith, 1999; Niden, 1993).

In the field of political science, the notion of favorability of national identities has increasingly attracted the attention of researchers. As a renowned political scientist, Joseph Nye coined the term, 'soft power', to refer to the ability of a nation to elicit attraction from people of foreign countries through the nation's various non-physical impacts including social, economic, cultural influences (Nye, 2004). For example, the regional hegemony China holds in Asia is attributed partly to her distinct Confucius culture that dominates its numerous Asian neighbors (Paradise, 2009). As it refers to a nation's capability to attract attention of foreign countries, the notion of soft power offers potential to examine various issues related to the perception or favorability of a nation by foreigners (Datta, 2009).

At the organizational level, soft power associated with a firm's country of origin is likely to affect its performance abroad (Bräutigam & Nye, 2004; Xiaoyang, 2012). For instance, despite its major success in most of Asian countries, the popular music industry in Korea encountered major setback when anti-Korean sentiment broke out in Japan in recent years (Park, 2014). In addition, due to recently rising anti-Americanism in Russia, McDonald's in Russia has publically highlighted its local Russian ties to

fend off its stereotypical image of the symbol of America (Birnbbaum, 2015). As such, soft power or other perceptions of foreign nations would affect firm-level behaviors and performance outcomes considering the significant impact of the sentiment toward different nations.

The literature in marketing also provides some theoretical basis for the role of national identity in acquisition premium as it provides implications that are consistent with the theories from the soft power. Specifically, researchers have found that in consumer goods industries, national identities associated with products, vis-à-vis their country of origin, influence consumers' evaluation. Such behavioral tendency of linking the inherent quality of the product and the perceived favorability of its origination is referred to as "the country-of-origin effect" (Bilkey & Nes, 1982; Gürhan-Canli & Maheswaran, 2000). In fact, manifestation of such effect is frequently observed across different countries (Han & Terpstra, 1988; Peterson & Jolibert, 1995; Roth & Romeo, 1992). For example, the country-of-origin effect can explain why ordinary Chinese consumers are reluctant to purchase Japanese vehicles after anti-Japanese sentiments have surged in recent years (Murphy, 2014). Consumers tend to hold positive images of a product from a particular foreign country if the latter is associated with positive images (Hong & Wyer, 1989; Maheswara, 1994). Such the-country-of-origin effect, however, has only been studied in the field of consumer behavior and has never been systematically examined in the field of strategic management, and in particular, on the topic of M&A's.

Drawing from such literature, we argue that acquirers would be willing to pay excessive acquisition premium for target firms associated favorable national identities. Based on this logic, we offer the following hypothesis under the *ceteris paribus* assumption:

Hypothesis 1: The level of favorability an acquirer holds toward a national identity of the target firm is positively related to the acquisition premium.

2.2 Favorability of National Identity: The Target's Perspective

Being acquired by another firm substantially affects the post-merger organizational culture and working environment of the target firm (Krishnan et al., 2007; Krug & Hegarty, 1997). As such, selecting an acquirer whose cultural norms and values are compatible would be a crucial factor in achieving a successful post-acquisition integration. Therefore, *ceteris paribus*, a target firm would prefer to be acquired by another company based in a foreign country with more favorable national identity. Although some may argue that a target firm's sentiment toward its acquirer is irrelevant, especially if its willingness to undergo an acquisition is high, several anecdotal evidences point out that target firms do take measures to discourage unattractive buyers from buying their firms. For example, Netflix took company-wide measures to fend off Carl Icahn and his

investment firm in 2012 (Goldman, 2012). Existing literature have demonstrated such defensive traits of target firms by analyzing the effect of poison pill on acquisition premium. Haunschild (1994) notes that a poison pill is “a firm-level defense against unwanted takeover.” Poison pill arises when target firms try to discourage unfavorable buyers and fend off the unappealing candidates with unattractive price (Malatesta, 1988).

Given that target firms take proactive actions to prevent themselves from being purchased by unattractive buyers, as seen in the example of poison pills, we can conclude that target firms can hold different levels of favorability toward their potential buyers and, subsequently, discriminate their potential buyers accordingly. As a result, such sentiments would affect acquisition premium. For instance, target firms would suggest or accept lower acquisition price with acquirers with more attractive countries of origin. Therefore, we offer the following hypothesis:

Hypothesis 2: The level of favorability a target firm holds toward a national identity of the acquirer is negatively related to the acquisition premium.

2.3 The Interaction Effects between Favorability of National Identity: The Acquirer and the Target firms

If both acquirers and target firms were indeed influenced by their sentiments toward their acquisition partners’ national identities, the

interaction effect between the sentiments of the two sides would exist. Moreover, such interaction effect is probably more apparent when the sentiments that acquirers and targets hold toward each other are asymmetric. For example, if an acquirer were favorable of the target firm based on its national identity, while the target firm is unfavorable of the acquirer's, both the acquirer and the target would simultaneously raise the price of the deal during the negotiation, giving rise to a rapid increase in bid price. On the other hand, if an acquirer is unfavorable of the target firm's national identity while the target firm is favorable of its acquirer's country of origin, the equilibrium price would be lower as both the acquirer and the target would decrease the price of the deal concurrently. As a result, we propose the following hypothesis:

Hypothesis 3: The favorability of a target weakens the relationship between the favorability of the acquirer and the acquisition premium.

In order to test the interaction effect, we need to assume that the sentiments of the two acquisition sides are independent from each other. An exhaustive review of the literature gave no indication that the favorability ratings from different countries were related to each other. Moreover, according to the BBC, Globescan and PIPA's country ratings survey (2012), which we utilized to measure favorability of foreign nations, individual sentiments toward other countries are mostly products of the traditional,

cultural, political, and economic aspects of the country, rather than the reciprocal perception of the focal nation (BBC, 2012). As a result, based on the survey data and absence of past research to prove dependence among sentiments toward other countries, we assumed that an acquirer's attitude toward the target firm's national identities is orthogonal to the target's attitude toward the acquirer. Such assumption made the empirical analysis of the interaction effect possible, which will be explained in the later section.

2.4 The Moderating Effects of Information Asymmetry

As previously discussed, evaluation of a subject can be significantly affected by its association of a specific national identity. The extant research in psychology indicates that such cognitive trait of association becomes more salient if we are inundated with too little or excessive information on the subject (Celsi & Olson, 1988; Hong & Wyer, 1989; Huber & McCann, 1982). In other words, people tend to infer information about a subject more through the process of association if they are more unfamiliar with the subject. Thus, we surmise that the effect of the acquirer's favorability of their partners becomes more salient if they do not have sufficient information on the target. For instance, if an acquirer lacks knowledge of the particular industry of the target, it would tend to base its evaluation of the target on more subjective criteria; in turn, favorability of its partner's national identity would become more salient in the decision-making process.

Previous research on diversification indicates that firms have greater, in-depth knowledge on their own industries or related industries than unrelated industries (Ansoff, 1965; Lecraw, 1984; Singh & Montgomery, 1987). Drawing from this literature, we focus on the industry-level relatedness to approximate the degree of information asymmetry between the two firms. In other words, two acquisition partners in the same or related industries would have lower information asymmetry; those in unrelated industries would have higher information asymmetry. As such, we offer the following set of hypotheses on the information asymmetry of acquisition partners as the moderator.

Hypothesis 4a: Information asymmetry strengthens the relationship between a favorability of an acquirer and acquisition premium.

Hypothesis 4b: Information asymmetry strengthens the relationship between a favorability of a target and acquisition premium.

The summary of the theoretical framework is shown on Figure 1 and Figure 2.

Figure 1. Theoretical Framework

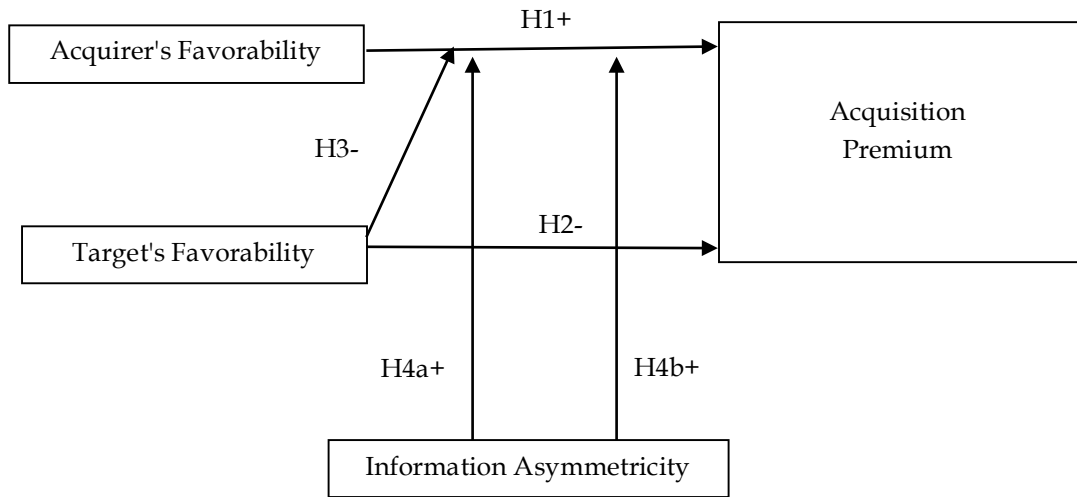


Figure 2. Illustration of the Theory

★ = Premium Level / Acquirer → Target

	Acquirer's High Favorability	Acquirer's Low Favorability
Target's High Favorability	Medium Acquisition Premium (★★★) e.g. Canada → UK	Low Acquisition Premium (★) e.g. Canada → US
Target's Low Favorability	High Acquisition Premium (★★★★★) e.g. US → France	Medium Acquisition Premium (★★★) e.g. China → Japan

3. Methods

3.1 Sample

The paper analyzed all cases of cross-border acquisitions available on SDC Platinum (M&A) database between 2007 and 2013. In addition, we relied on the *BBC's Country Ratings Survey Report* to measure the favorability of the acquirers and target firms hold against each other which made all acquirers (and their respective targets) from countries that were considered in the BBC surveys become our focal sample firms of this paper. Therefore, cross-border acquisitions that consist of acquirers and target firms from the following 38 countries were used for the empirical analysis: Argentina, Australia, Australia, Brazil, Canada, Chile, China, Egypt, France, Germany, Ghana, Greece, Hungary, India, Indonesia, Iran, Israel, Italy, Japan, Kenya, Lebanon, Mexico, Nigeria, Pakistan, Peru, Philippines, Poland, Portugal, Russia, South Africa, South Korea, Spain, Thailand, Turkey, UAE, UK, US, and Venezuela.

The SDC Platinum (M&A) database considers a within-border acquisition as a cross-border acquisition if a domestic firm with a foreign parent company acquires another domestic firm. As such cases can be seen as indirect cross-paper acquisitions, we also considered them as cross-border M&A's while noting and controlling for such indirect effect with a dummy variable called, "indirect cross-border acquisition." In sum, after listwise deletions of missing values, we collected all aforementioned

acquisition cases that are available on the database from year 2007 to 2013; in total, 435 acquisition cases fit the description.

3.2 Dependent Variable

Acquisition Premium. Our study analyzes the effect of acquisition parties' sentiments toward the national identities of their partners on acquisition premium paid. As such, our dependent variable was the amount of acquisition premium paid. We measured the acquisition premium using the data for "Premium 4 weeks prior to announcement date" on SDC Platinum (M&A) database since it captures the acquisition premium in each transaction in a consistent matter. The variable was measured by the percentage difference between an acquisition deal's bid price per share paid by the acquirer and the target firm's stock price four weeks prior to announcement date (Haunschild, 1994). We measured the natural log of the acquisition premium to better interpret our analysis.

3.3 Independent Variable

Favorability. To measure the degree of favorability acquirers and target firms hold toward each other in terms of their nationality, we relied on the data from BBC, Globescan and PIPA's *Country Ratings Survey Report*. The report surveys 1,000 respondents annually from the general public of each country regarding their perspectives on the influence of other countries in the sample. By inquiring about the influence of the foreign countries,

encompassing all facets of the nation including socio-economic and cultural dimensions, the survey generates a comprehensive and reliable data, and has constantly been used in diverse areas of political science research to capture favorability and public opinions of each country, as well as its 'soft power' (Holyk, 2013; Hoodbhoy & Mian, 2014; Liu & Hao, 2014). More specifically, the survey organization gives a list of foreign nations to each respondent, and asked him/her to indicate whether s/he feels "*favorable*" or "*unfavorable*" toward each country. We then measured favorability scores by using the percentage of total responses marked as "*favorable*". As the survey report is published annually, it was suitable for measuring the data for our time frame (2007-2013).

An alternative approach for measuring the relevant favorability in our study may have been direct surveys of top managers on how they view the other partner firms. Although it could have provided a more accurate data on perceived favorability, such direct survey possesses various potential problems as well. First of all, surveying top management team members retrospectively on how they had felt toward the target firm would be infeasible. Moreover, even if we were to conduct such survey, there is a high chance that the data may contain various types of biases. For example, knowing that their responses may be reviewed by a third party, top managers may dishonestly hide their unfavorable sentiments toward their acquisition partners' national identities in order to signal others that their decisions were rational and logical. In addition, those who are willing to

complete the survey may have extreme stances on the survey questions, which can lead to self-selection bias. Hence, we chose to use the proxy survey of how average people of different nations view other countries instead.

3.4 Moderating Variable

Based on extant research on industrial relatedness, we utilized the SIC codes of the two acquisition partners (Hayward & Hambrick, 1997; Keil, Maula, Schildt & Zahra, 2008). Although there have been some criticisms regarding utilization of the SIC codes to infer firms' relatedness, it is the most systematic and effective methodology to study the firm-level industrial commonality (Markides & Williamson, 1996; McGahan, 2005; Villalonga, Halebian & Finkelstein, 1999). We assumed that acquisition partners were unrelated if the first digit of the SIC Codes is not identical (Markides & Williamson, 1996).

3.5 Control Variables

In our analysis, we included four different categories of control variables. The first category is a group of control variables that depict financial attractiveness of target firms. This category consists of target firm's net sales (*Target Net Sales*), after tax net income (*Target Net Income*), and profit margin for past twelve months from the acquisition announcement

date (*Target Profit Margin*), and net asset of target firms (*Target Net Asset*) (Hope et al, 2011).

The second category describes the nature of the acquisition bid, which includes dummy variables for existence of tender offer (*Tender Offer*) (Comment & Schwert, 1995), competition during bidding process (*Bidding Competition*) (Giliberto & Varaiya, 1989; Slusky & Caves, 1991) and completion of the deal (*Completion Status*). Each variable was given a value of 1 if the acquisition case had a tender offer, more than one bidder, or a completed deal status without a withdrawal from the deal.

The third category denotes the characteristics at the acquirer-level: the percentages of target firm's shares sought by the acquirer (*Shares Sought*); a dummy variable on whether the acquirer had hostile or unfriendly bid during the bidding process (*Hostile Bid*); and a dummy variable on whether the acquirer was a financial institution (*Financial Institution Acquirer*) (Hope et al, 2011).

The last category of control variables controls for other remaining factors that influence acquisition premium: an indirect cross-border acquisition (*Indirect Cross-Border Acquisition*), neutrality (or absence) of sentiment towards the acquisition partner's national identity (*Acquirer's Neutrality & Target's Neutrality*), and year effects of our sample's timeframe (2007-2013) (*Year Control*). The indirect cross-border acquisition variable is a dummy variable that indicates whether an acquisition case is an indirect acquisition of a domestic firm by a domestic acquirer, which has a foreign

parent company. In addition, we had to recognize those cases where acquisition parties do not hold any significant sentiment toward their partners' national identities. By default, firms possess propensity to conduct expand through cross-border acquisitions (Wilson, 1980). Therefore, we also controlled for the neutrality (or absence) of sentiment by calculating the percentage of respondents who did not indicate any attitude on the favorability survey.

3.6 Analysis

All cross-border acquisition cases available in the SDC platinum amounted to 435 cases, after list-wise deletion of missing values. We first made a random distribution assumption of the samples and utilized the ordinary least squares regression analysis to test the initial hypotheses. By constructing different versions of empirical model, we analyzed different versions of control variables and interaction effects between the two sides' favorable sentiment toward the other.

4. Results

The paper empirically tested the abovementioned analysis with different sets of control variables and independent variables to test the proposed hypotheses. Statistical values for each research model are shown on the following statistical tables. The Variance Inflation Factors (VIF) of all

the variables in every model were lower than 2.00. As a result, we assumed that there was no problem of multicollinearity in all the models of the paper.

Table 1. Descriptive Statistics

	Mean	Std. Deviation	N
Log (Premium 4 Weeks)	3.696	0.948	435
Target Net Sales	893.502	2802.505	435
Target Net Income	34.059	153.614	435
Target Profit Margin	-18.347	840.299	435
Target Net Asset	492.559	1538.957	435
Tender Offer	0.460	0.499	435
Bidding Competition	0.110	0.319	435
Completion Status	0.870	0.340	435
Shares Sought	85.703	27.737	435
Hostile Bid	0.030	0.164	435
Finance Industry_a	0.030	0.157	435
Indirect Cross-Border	0.360	0.479	435
Neutrality_a	2.833	0.537	435
Neutrality_t	2.775	0.482	435
Favorability_a	3.915	0.379	435
Favorability_t	3.890	0.350	435
Info Asymmetry_a	1.723	1.981	435
Info Asymmetry_t	5.572	1.977	435

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. Log (Premium 4 Weeks)	1.00																	
2. Target Net Sales	-0.07	1.00																
3. Target Net Income	-0.11	0.54	1.00															
4. Target Profit Margin	0.03	0.01	0.03	1.00														
5. Target Net Asset	-0.08	0.60	0.53	0.00	1.00													
6. Tender Offer	-0.00	-0.05	0.04	-0.02	-0.03	1.00												
7. Bidding Competition	0.13	0.12	0.05	0.00	0.03	-0.07	1.00											
8. Completion Status	-0.03	-0.10	-0.07	-0.08	-0.04	0.21	-0.30	1.00										
9. Shares Sought	0.14	-0.03	0.03	0.00	-0.01	-0.09	0.13	-0.07	1.00									
10. Hostile Bid	0.01	0.18	0.15	0.01	0.12	0.07	0.12	-0.31	0.08	1.00								
11. Finance Industry Acquirer	-0.04	-0.02	-0.05	0.00	-0.03	-0.09	0.08	0.02	0.04	-0.03	1.00							
12. Indirect Cross-Border	0.01	-0.03	-0.02	0.02	-0.04	0.25	-0.01	0.17	0.04	-0.13	-0.03	1.00						
13. Neutrality _a	0.05	-0.01	-0.03	-0.04	0.02	0.19	-0.02	0.03	-0.13	-0.03	-0.12	-0.04	1.00					
14. Neutrality _b	-0.10	0.04	-0.01	-0.04	0.00	0.10	-0.07	0.04	-0.25	-0.01	-0.08	0.01	0.28	1.00				
15. Favorability _a	-0.06	0.04	0.00	-0.04	0.01	-0.04	0.03	-0.01	0.03	0.04	0.02	0.06	-0.40	-0.19	1.00			
16. Favorability _t	-0.03	-0.09	0.02	0.06	0.00	-0.07	-0.01	0.06	0.24	0.05	0.03	0.00	-0.01	-0.22	-0.14	1.00		
17. Info Asymmetry _a	0.03	0.00	0.01	0.08	-0.03	0.12	-0.08	0.10	-0.10	-0.06	0.16	0.31	-0.12	-0.07	0.18	-0.06	1.00	
18. Info Asymmetry _t	0.02	-0.03	0.01	0.10	-0.03	0.09	-0.08	0.12	-0.03	-0.05	0.17	0.3	-0.09	-0.12	0.07	0.21	0.95	1.00

Table 2. Pearson Correlations

Table 3. Results of Regression (Basic Main Effects)

Variable	Model 1	Model 2	Model 3
Intercept	3.396*** (0.505)	6.179*** (1.183)	5.080 (4.308)
Target Net Sales	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Target Net Income	-0.001+ (0.000)	-0.001+ (0.000)	-0.001+ (0.000)
Target Profit Margin	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Target Net Asset	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Tender Offer	0.014 (0.102)	0.033 (0.102)	0.032 (0.103)
Competition During Bidding Process	0.346* (0.151)	0.337* (0.150)	0.337* (0.150)
Completion Status	0.054 (0.151)	0.090 (0.151)	0.090 (0.151)
Shares Sought	0.004** (0.002)	0.005** (0.002)	0.005** (0.002)
Hostile Bid	0.084 (0.299)	0.138 (0.298)	0.140 (0.298)
Finance Industry Acquirer	-0.405 (0.290)	-0.406 (0.289)	-0.407 (0.289)
Indirect Cross-Border Acquisition	0.015 (0.099)	0.026 (0.099)	0.027 (0.099)
Neutrality_a	0.122 (0.092)	0.042 (0.101)	0.038 (0.102)
Neutrality_t	-0.180+ (0.111)	-0.265* (0.115)	-0.266* (0.022)
Year Control	Yes	Yes	Yes
Favorability_a (H1)		-0.300* (0.145)	0.005 (1.159)
Favorability_t (H2)		-0.299* (0.144)	0.005 (1.155)
Favorability_a X Favorability_t (H3)			-0.083 (0.313)
N	435	435	435
Model Sig	0.019	0.006	0.009
Adjusted R²	0.035	0.046	0.043

Standard Errors in Parentheses

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4. Results of Regression (Moderating Effect)

Variable	Model 4	Model 5
Intercept	6.130*** (1.181)	6.151*** (1.181)
Target Net Sales	0.000 (0.000)	0.000 (0.000)
Target Net Income	-0.001* (0.000)	-0.001* (0.000)
Target Profit Margin	0.000 (0.000)	0.000 (0.000)
Target Net Asset	0.000 (0.000)	0.000 (0.000)
Tender Offer	0.022 (0.102)	0.025 (0.102)
Competition During Bidding Process	0.357* (0.150)	0.352* (0.150)
Completion Status	0.085 (0.151)	0.088 (0.151)
Shares Sought	0.005** (0.002)	0.005* (0.002)
Hostile Bid	0.145 (0.297)	0.025 (0.102)
Finance Industry Acquirer	-0.499+ (0.293)	-0.489+ (0.294)
Indirect Cross-Border Acquisition	-0.023 (0.103)	-0.016 (0.103)
Neutrality_a	0.048 (0.101)	23246 (0.101)
Neutrality_t	-0.253 (0.115)	-0.254* (0.115)
Year Control	Yes	Yes
Favorability_a (H1)	-0.333* (0.146)	-0.315* (0.145)
Favorability_t (H2)	-0.288* (0.146)	-0.344* (0.147)
Favorability_a X Info Asymmetry_a (H4a)	0.043+ (0.025)	
Favorability_t X Info Asymmetry_t (H4b)		0.037 (0.025)
N	435	435
Model Sig	0.004	0.005
Adjusted R²	0.050	0.048

Standard Errors in Parentheses

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

The Table 3 and 4 show regression coefficients for the various models. The Model 1 includes just the control variables while the other models added the other independent, interaction, and moderating variables testing the hypotheses. The significance levels for the all five models are below 5%, indicating that they were all statistically significant. As shown in the Table 3 and 4, the empirical analyses confirmed some of our hypotheses, while for others the opposite results emerged.

Since we utilized the log of acquisition premia as our dependent variable, we can interpret the coefficients of the Table 3 and 4 as the amount of percentage changes of acquisition premia when the independent or control variables change by one unit. Our independent variables indicate percentages of people who are favorable of each specific foreign country. Therefore, we can interpret the coefficients of the independent variables as the amount of percentage changes of acquisition premia when the numbers of people who are favorable of a particular foreign nation change by one percent. Using such method of interpretation, our analyses effectively tested our initial hypotheses and showed several significant results.

First of all, as shown in the Model 2 of the Table 3, the results show that a target firm's favorability of the acquirers significantly decreases acquisition premia. Thus, Hypothesis 2 was supported. The results show that an acquisition premium is more dependent on a target's favorability towards the acquirer rather than the other determinants from previous research, such as an amount of shares sought by acquirers and the net

income of the target firms. In short, we can interpret such result by arguing that favorability of acquirers' national identities is negatively associated with acquisition premia. Such tendency can be seen as the preference of the target firms to encounter and be associated with acquirers from nations with greater subjective favorability.

Although the Hypothesis 2, was strongly supported, other findings were inconsistent with the Hypothesis 1, which tested the effects of the acquirer's favorability towards the target. According to the results on the Model 2 of the Table 3, an acquirer's favorability towards the target is negatively associated with acquisition premia. Therefore, Hypothesis 1 was not supported.

As the Model 3 in Table 3 shows, the hypothesized interaction effects at the dyadic level were not found to be significant. While the model itself was statistically significant at 5% level, the regression coefficients of the interaction terms failed to reach significance. According to the Model 3, the interaction effect between acquirers and targets in terms of their favorability toward each other was statistically not significant. Therefore, the Hypothesis 3, which predicted an interaction effect between the sentiments of two acquisition partners, was not confirmed.

If we look at Model 4 and 5 in Table 4, the empirical analysis marginally confirmed that acquirer's favorability of its target firm's national identity has more salient effect as it lacks knowledge of its target firm's industry while such moderating effect was found to be insignificant for the

target firm's perspective. According to the model, an acquirer relies more heavily on its sentiment toward the target's national identity when deciding the cost of acquisition, if it is not familiar with the target firm's industry or business. Summary of the empirical analysis is shown on Figure 3.

Figure 3. Illustration of the Actual Result

★ = Premium Level / Acquirer → Target

	Acquirer's High Favorability	Acquirer's Low Favorability
Target's High Favorability	Medium Acquisition Premium (★) e.g. Canada → UK	Low Acquisition Premium (★★★) e.g. Canada → US
Target's Low Favorability	High Acquisition Premium (★★★) e.g. US → France	Medium Acquisition Premium (★★★★★) e.g. China → Japan

5. Discussion and Conclusion

The results of our study offer a number of theoretical insights. First of all, our results show that target firms tend to accept lower acquisition premia from acquirers with more appealing national identity. Such results support the notion that the perception of the target firms in the context of the acquirers' national identities does matter in cross-border acquisitions. All in all, favorability of the target's national identity significantly influences acquisition premium, a critical aspect of a cross-border

acquisition. In fact, considering the significant role of attitudes toward national identities on acquisition premia, the findings of our study also suggest the possibilities of such perception in other firm-level outcomes.

Furthermore, although we had predicted in Hypothesis 1 a positive relationship between an acquirer's favorable sentiment toward the target and the acquisition premium, our results indicate that the opposite is true. In other words, the level of favorability the acquirer holds toward the target firm is actually negatively related to acquisition premia in cross-border M&A's. Such unexpected finding seems to arise from a complex interplay of various sentiments. In fact, it suggests that we may need to consider the notion of 'national pride' (Hope, 2011) to explicate the phenomenon of acquirers' higher payment of premia to target firms with unfavorable sentiment. In their recent study, Hope et al (2011) found that when acquiring firms show signs of national pride, they tend to bid higher during acquisition deals. In other words, under a significant level of national pride or patriotism, acquiring a target firm from a country with strongly negative historical ties may pose irrational motivation in undertaking the transaction. As a result, the firm may be motivated to pay greater premium to acquire the target with unfavorable national identities in order to fulfill its nationalistic motivations, for instance.

By empirically examining the moderating effect of information asymmetry, we also confirmed the last hypothesis that the effect of acquirers' favorability is strengthened if they lack sufficient knowledge of

the target firm. Such finding is consistent with previous literatures on psychology which argue that propensity of association is more prominent if they lack knowledge of a subject (Hong & Wyer, 1989; Huber & McCann, 1982; Olson, 1977). However, we did not find such moderating effect from the perspective of target firms. The absence of the moderating effect may be due to the nature of the target firms' role in the acquisition process. During the acquisition process, it is mostly the acquirer that actively searches and identifies its possible acquisition partner (Benson & Shippy, 2013). In addition, as acquisition premium can only be finalized as the acquirer has the willingness and ability to pay the negotiated price, the evaluation and decision-making process of the acquirer seems more critical when determining acquisition premia compared to those of the target. Thus, the decision-making process would be more involved and complex for the acquirers than the targets.

The findings of our study also shed light on organizational decision-making processes in the context of M&A's. We find that in addition to the accounting-based assessment of a target firm, acquisition parties seem to rely on subjective and idiosyncratic way of valuating their partner firms. Specifically, national identities, in fact, were found to substantially influence the firms willingness to pay or accept acquisition premia, which can potentially determine their post-acquisition performance (Krishnan, Hitt & Park, 2007; Laamanen, 2007; Sirower, 1997). Therefore, we believe that the

findings of this study offer yet another evidence on the bounded nature of organizational decision-making.

6. Limitations and Suggestions for the Future Studies

The favorability ratings this paper utilized are from surveys that targeted the entire population of each country. As a result, such favorability may not be completely applicable to the top managers of each individual company that hold decision-making power. Considering how such management groups are just narrow subgroups in each population, a survey targeting the general population of each country may not portray completely accurate information on the top managers of large public corporations. Nevertheless, distributing surveys directly to the top managers that actually made the decisions on the acquisition is, first of all, infeasible. In addition, asking the managers regarding the questions about their stereotypes and sentiments toward other countries during and after the acquisitions may contain substantial bias given their sensitive nature. Therefore, we felt that the data from the national-level survey were the most efficient, reliable and practical source for the purpose of this study.

However, future research on this topic may want to incorporate a lab-based study measuring how decision-makers with varying sentiments toward different foreign nations make their decisions on the prospective

M&A cases. It is hoped that this paper would provide impetus for future studies on this important topic examining the effects of national-level favorability on inter-firm transactions.

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국 문 초 록

국경 간 인수합병에서 상대기업 호감도가 인수 프리미엄에 미치는 영향

본 논문은 국경 간 인수합병에서 상대기업의 국적에 대한 호감도와 인수 프리미엄의 상관관계를 연구하였다. 38 개의 국적을 가진 기업들이 참여한 435 개의 국경 간 인수합병들을 분석한 결과, 본 연구는 1) 인수 프리미엄과 인수 기업이 피인수 기업의 국적에 대해 가지고 있는 호감도가 음의 상관관계를 가지고 있음을 발견하였다. 또한 2) 인수 프리미엄과 피인수 기업이 인수 기업의 국적에 대해 가지고 있는 호감도 또한 음의 상관관계를 가지고 있음을 알 수 있었다. 또한, 인수합병에서 인수기업이 피인수 기업에 대한 지식이 부족할 경우 앞서 언급한 피인수 기업의 국적에 대한 호감도와 인수 프리미엄의 관계를 조절한다는 점을 발견할 수 있었다. 해당 논문은 특정 국가에 대한 호감도가 기업의 인수합병 행태에 어떠한 영향을 주는지를 인수 프리미엄을 통하여 분석한 첫 연구이다.

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주요어: 인수 프리미엄, 인수합병, 국경간 인수합병, 기업의 국적, 상대기업 호감도

학 번: 2014-20403